

Public Document Pack



To: All Members of the Audit Committee
(and any other Members who may wish to attend)



R. Groves
Monitoring Officer

Tel: 0151 296 4000
Extn: 4124 Ally Kirby

Our ref: AK/RG

Date: 29th May 2024

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00pm** on **THURSDAY 6TH JUNE 2024** in the Liverpool Suite - Fire Service Headquarters.

The meeting is webcast live to YouTube and is available at the following link:

<https://youtube.com/live/ktYQ1LQ8--l?feature=share>

Yours faithfully,

PP – A. Kirby

Monitoring Officer

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

6 JUNE 2024

AGENDA

Members

Cllr Jan Grace (Chair)
Cllr Edna Finneran
Cllr Sam Gorst
Cllr Barbara Murray
Cllr Pat Moloney
Cllr Sue Murphy
Mr Anthony Boyle

1. Apologies

To consider any apologies for absence.

2. Declarations of Interest

To consider any Member declarations of interest.

3. Minutes of the previous meeting (Pages 5 - 10)

To consider the minutes of the last meeting held on 8th February 2024.

4. Treasury Management 2023/24 Annual Report (Pages 11 - 22)

To consider the Treasury Management 2023/24 Annual Report (CFO/28/24).

5. Annual Governance Statement 2023-24 (Pages 23 - 38)

To consider the Annual Governance Statement 2023-24 (CFO/29/24).

6. Mazars Audit Progress Report 2023-24 (Pages 39 - 56)

To consider the Mazars Audit Progress Report 2023-24 (CFO/30/24).

7. 2023-24 Annual Year-End Internal Audit Report (Pages 57 - 72)

To consider the 2023-24 Annual Year-End Internal Audit Report (CFO/31/24).

8. Internal Audit Plan 2024-25 (Pages 73 - 84)

To consider the Internal Audit Plan 2024-25 (CFO/32/24).

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

8 FEBRUARY 2024

MINUTES

Present: Councillors **Jan Grace (Chair), Edna Finneran, Pat Moloney, Sue Murphy, Barbara Murray, Sam Gorst.**

Also Present:

Dave Mottram	Assistant Chief Fire Officer
Mike Rea	Director of Finance & Procurement
Caroline Berry	Deputy Monitoring Officer
Melanie Dexter	Internal Audit (LCC)
Georgia Jones	Grant Thornton

7. Apologies

Apologies were received from Chief Fire Officer Phil Garrigan, Monitoring Officer Ria Groves and Mr Anthony Boyle.

8. Declarations of Interest

There were no declarations of interest in relation to any item on the agenda.

9. Minutes of the Last Meeting

RESOLVED that the minutes of the last meeting held on 12th October were agreed as an accurate record.

10. 2022/23 Audit Finding Report

Director of Finance and Procurement, Mike Rea, explained that the report from Grant Thornton would provide the 2022-23 financial statement and the external audit opinion.

It was explained that this had been delayed as the Government Actuary's Department had not made allowances for part year rises in inflation when making estimations for the Firefighter Pension Scheme. This had affected various Fire and Rescue Authorities as well as Police Authorities. Members were advised that following discussions with the Government Actuarial Department, the decision had been taken to update the evaluation and increase the Firefighter Pension liability by £17.6 million. This material difference was disclosed in the statement of accounts (item 5 on the agenda).

Georgia Jones, Grant Thornton, explained that the report had been updated to account for the above pension issue as outlined by Mike Rea, and due to a

recheck of the Authority's land and building valuations following a previous error.

It was explained that there was an additional pension issue that had arisen wherein 2022/23, the Local Government Pension scheme had been in surplus and as part of technical accounting standards, this had been assessed to ensure it was below the asset ceiling.

Members were advised that once approved, an unqualified opinion would be issued and the audit for 2022/23 could be closed.

RESOLVED that contents of the Auditors report be noted.

11. Statement of Accounts 2022/23 - Approval of Audited Statements

Mike Rea, Director of Finance and Procurement, presented the Statement of Accounts for 2022/23 noting that a report had previously been considered by the Committee in October 2023.

Appendix A of the report presented the core financial statements and summarised the movements and changes within the accounts. This included the previously mentioned change in pension valuations and any balance sheet movements.

As per the regulations, the Authority were required to include entries such as the depreciation charge, which were notional in nature.

The Chair asked how the Authority ensured value for money in relation to property valuations. It was explained that 20% of the Authority's properties were valued each year and the Authority used indices based on the local area when calculating a property's value. The fire stations were valued at a depreciation replacement cost (which differed to market value) and considered the cost to build a new station depreciated against the life of the asset.

RESOLVED that:

- a) the 2022/23 Statement of Accounts, attached as Appendix A to this report be approved; and
- b) the letter of representation in relation to the 2022/23 accounts, attached as Appendix B be signed.

12. 2022/23 Auditors Annual Report (Grant Thornton)

Georgia Jones, Grant Thornton, presented the report which provided the Authority with assurance as to its arrangements to enable value for money, financial sustainability and improve its effectiveness.

It was explained that there was one recommendation for improvement with the report overall being very positive especially in the current climate. The

recommendation related to a funding gap in the medium-term financial plan and it suggested that the Authority would benefit from ensuring that there were mitigating strategies in place to manage a medium-term funding deficit given the increase in Councils issuing 114 notices.

Georgia Jones explained that the Authority would need to identify all the savings it would need to meet the funding gap and have plans in place that were fully costed with explanations for any variances in order to meet the recommendation. Grant Thornton suggested that process could be 'tightened up' for closer monitoring. Mike Rea assured Members that the Authority was working on that recommendation as part of its budget setting process and some mitigating strategies relating to reserves and technical savings were being considered. It was noted that a one-year settlement from central Government was making it difficult to forecast more accurately.

Georgia Jones suggested that the Authority undertake some scenario planning with different settlement options as part of the planning process.

Mike Rea thanked Grant Thornton for all of their hard work and especially Georgia and her team, noting that they had completed all of their external audits in a timely manner.

RESOLVED that the contents of the Auditors report be noted.

13. Financial Review 2023/24 - October to December

Mike Rea, Director of Finance and Procurement, presented the report which focused on the Authority's revenue position, capital, reserves, and treasury management strategy.

Members were advised that there had been some movement in the revenue budget in the third quarter but that the movement was self-balancing and currently stood at £67.921 million.

It was explained that the revenue position had been forecasted after reviewing income and expenditure and officers have identified savings. A summary can be found on page 206 of the agenda. There had been a saving of £300,000 from the firefighter employee budget due to a reduction in uptake of overtime and a saving of £300,000 in the non-operational budget relating to issues with recruitment and retention.

Member's attention was drawn to paragraphs 18 and 19 in the report which summarised the capital changes in the quarter including the planned re-phasing of £8.2 million spend on capital schemes into 2024/25. There was also an additional £6 million to be spent on the National Resilience asset refresh but this would be funded through the Home Office via a grant.

With regards to reserves, it was noted that there was a drawdown of £258,000 with the majority relating to the ICT Budget and remaining £10k relating to Driver Training for the Princes Trust Support Staff.

In terms of treasury management, Mike Rea reported that the Bank of England base rate was currently 5.25% and was expected to remain there until the second half of 2024. Rates were then expected to fall back with the Public Work Loan Board rates forecasted just below 4% for December 2025. It was advised that there were no long-term borrowing requirements for 2023-2024.

Councillor Grace asked if the last year had been challenging, taking into account budgeting for the staff pay rises. Mike Rea explained that the team had budgeted for a 5% rise for both firefighters and non-firefighters and when the non-firefighter pay rise had been announced as nearer 6%, they had been able to find the difference in the existing budget for 2023/24 but this would require growth in 2024/25.

RESOLVED that:

- a) the contents of the report be noted;
- b) the proposed revenue and capital budget alignments be approved;
- c) the use of the £1.100m forecast revenue variance to fund an increase in the Inflation Reserve £0.500m, an increase in the Smoothing Reserve £0.400m and fund a £0.200m revenue contribution to capital and reduce the level of borrowing be approved; and
- d) the Director of Finance and Procurement be instructed to continue to work with budget managers to maximise savings in 2023/24.

14. Internal Audit Progress Report

Mike Rea reported on the progress of the 2023/24 Internal Audit plan noting that it would be submitted to Members for consideration again in May.

Melanie Dexter, Liverpool City Council, outlined the work that had been completed to date with two audits completed since summer. Work on the suitability of the Authority's bullying and harassment procedures and core financial systems were underway.

A self-certification tool had been introduced which would enable the Authority to respond to any internal audit recommendations and track progress against any actions. It was hoped that this system would save time for the Authority and the auditors.

Councillor Moloney asked for clarity on the Foreign Commonwealth and Development Office audit work mentioned in the report and it was explained that this was a requirement of the grant funding for the UKISAR team. Mike Rea confirmed that the five-year agreement was worth around £4million.

RESOLVED that the contents of the report be noted.

Close

Date of next meeting Thursday, 6 June 2024

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2024	REPORT NO:	CFO/28/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	TREASURY MANAGEMENT 2023/24 ANNUAL REPORT		

APPENDICES:	APPENDIX A: TREASURY MANAGEMENT ANNUAL REPORT 2023/24
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Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2023/24. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Recommendation

2. It is recommended that Members note the Treasury Management Annual Report 2023/24 (attached as Appendix A).

Introduction and Background

3. Treasury Management is defined as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
4. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority and a Treasury Policy Statement incorporated in Financial Regulations in accordance with the requirements of the Code. The arrangements for reporting Treasury Management activities to Members are that a minimum of three reports are presented to Members: -
 - An Annual Treasury Strategy Report before the start of a financial year.

- An interim report during the second half of a financial year. Other interim reports will be prepared if necessary.
- An annual outturn report by 30th September following the financial year to which it relates.

Annual Treasury Management Strategy

5. The Authority determines before the start of each financial year an agreed Treasury Management strategy to set certain parameters and guidelines around which the Treasury Management function will operate. The 2023/24 – 2027/28 Budget and Financial Plan report, CFO/063/22, considered by Members at the Authority meeting on 23rd February 2023, set the Authority's Treasury Management strategy for 2023/24:

The strategy sets limits for the next three years on:

- overall Level of External Debt
- operational Boundary for External Debt
- upper limits on fixed interest rate exposure
- upper limits on variable rate exposure
- limits on the maturity structure of debt
- limits on investments for more than 365 days

The strategy covers:

- prospects for interest rates
 - capital borrowing and debt rescheduling
 - annual investment strategy
 - external debt prudential indicators
 - Treasury Management prudential indicators
 - performance indicators
 - Treasury Management advisors
6. As short term interest rates were expected to be lower than long term borrowing rates, the Authority, as part of its approved Treasury Management strategy, agreed to reduce investments and borrow for short periods and possibly at variable rates when necessary. The interest rate market was monitored throughout the year for any changing circumstances requiring a review of the current strategy.

Interim Treasury Management Report

7. The interim Treasury Management report, CFO/054/23, was considered by Members at the Policy and Resources Committee on 14th December 2023. The report confirmed that to date Treasury Management activity in 2023/24 had been carried out in compliance with the relevant Codes and Statutes and within the

borrowing and Treasury Management limits set by the Authority under the prudential code.

Annual Outturn Treasury Management Report

8. The Treasury Management Annual Report 2023/24 is attached as Appendix A to this report and demonstrates that Treasury Management activity has been carried out in-line with the approved Treasury Management Strategy and therefore within the borrowing and Treasury Management limits set by the Authority throughout the year. Treasury Management practices have maintained full compliance with the relevant Codes and Statutes.
9. The Authority's Treasury Management function is carried out by Liverpool City Council via a service level agreement.

Equality and Diversity Implications

10. There are no equality and diversity implications arising from this report.

Staff Implications

11. There are no staff implications arising from this report.

Legal Implications

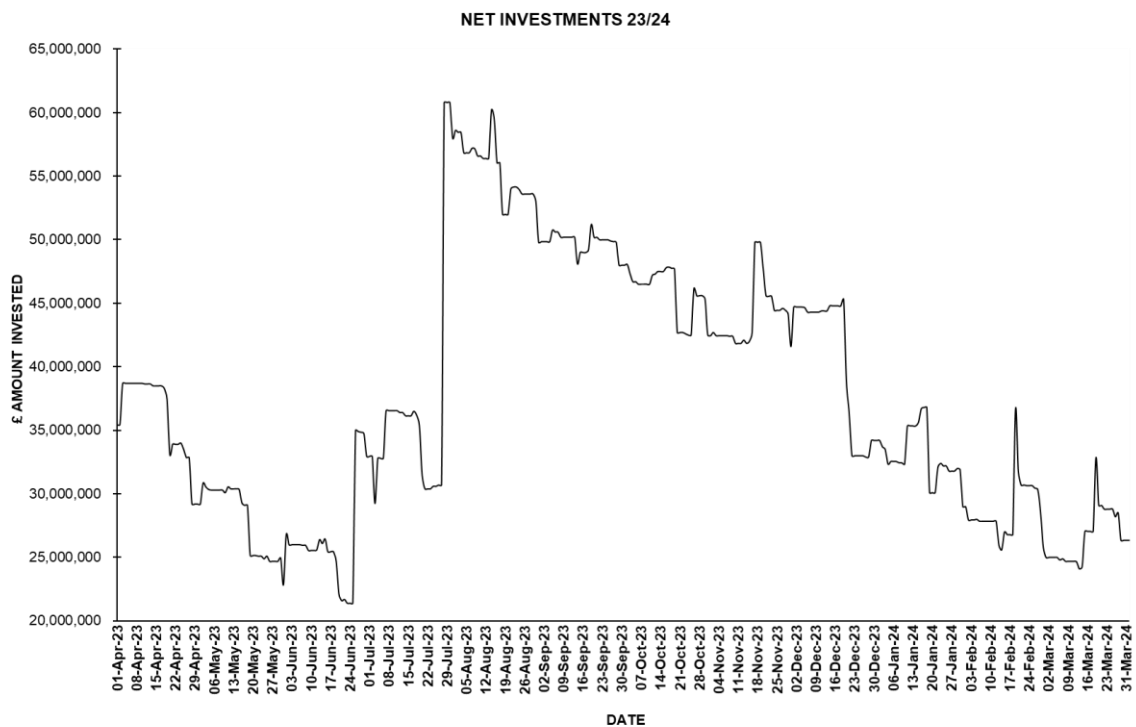
12. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Financial Implications & Value for Money

13. The cost of Treasury Management Services was £26,334 in 2023/24 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding at the end of the financial year remained the same as at the start of the financial year at £33.720m.
15. The Authority paid total interest of £1.715m on all the debt during the year, which was consistent with the budget. The reason for no new loans being taken out in the year (and as a consequence lower interest payments) is due to the current strategy of using available cash to fund capital investment rather than seek new loans while Public Works Loans Board debt costs remain so high.

16. The movement on the level of opening and closing investments is summarised below:

	£'m
01/04/2023	35.450
31/03/2024	26.350



17. The reason why the level of investments increased in the year is that the Authority receives significant grant income in advance of actual expenditure. For example, the firefighter pension grant of £30.461m was paid in July but actual pension payments are spread throughout the year.
18. A combination of the grants received in advance of expenditure and the cash available as a consequence of the current reserve strategy meant the Authority had £26.350m of investments at the year-end.
19. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £26.350m of investments held as at 31st March 2024;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2023/24

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Aberdeen Liquidity	AAA	2,100,000				5.05
Federated Investors UK (Overnight)	AAA	2,400,000				4.90
Legal & General	A+	2,400,000				5.05
HSBC (MFRS Deposit Account)	A		450,000			2.00
Newcastle BS				1,000,000		5.90
Aberdeen CC					3,000,000	5.60
Blackpool Council					3,000,000	6.30
Folkstone & Hythe DC					2,000,000	5.60
Rushmoor BC					3,000,000	5.65
The Highland Council					2,000,000	5.60
Uttlesford DC					3,000,000	7.00
Wyre Forest DC					2,000,000	2.00
Totals		6,900,000	450,000	1,000,000	18,000,000	5.05
Total Current Investments					26,350,000	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

20. Income earned on investments was £1.045m, which was £0.095m above the amount budgeted for, reflecting the increase in interest rates during the year.

Risk Management and Health & Safety Implications

21. Robust management of the Authority's cash, investments and loans reduces the risk of poor security of investments, the lack of availability of funds when required, and a poor return on investments.

Environmental Implications

22. There are no environmental implications arising from this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

23. A good Treasury Management Strategy ensures that funds are available to meet the approved financial plan and therefore the delivery of services required to achieve the Authority's vision.

BACKGROUND PAPERS

CFO/063/22 MFRA Budget and Financial Plan 2023/2024 - 2027/2028, Authority 23rd February 2023.

CFO/054/23 Interim Treasury Management Report, Policy & Resources Committee 15th December 2023.

GLOSSARY OF TERMS

CIPFA Chartered Institute of **P**ublic **F**inance and **A**ccountancy

TREASURY MANAGEMENT ANNUAL REPORT 2023/24

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to regular reports to Members. This report represents the final report on Treasury Management for 2023/24.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2023/24. The strategy covers the following areas:
 - (a) prospects for interest rates;
 - (b) capital borrowing and debt rescheduling;
 - (c) annual investment strategy;
 - (d) external debt prudential indicators;
 - (e) treasury management prudential indicators;
 - (f) performance indicators;
 - (g) treasury management advisors

PROSPECTS FOR INTEREST RATES

3. The UK economy over the past 12 months has been characterised by sluggish economic growth and sustained high inflation. The legacy impacts of the pandemic and the ongoing war in Ukraine continue to cause supply chain disruption resulting in inflation remaining above target. In the latter half of the financial year, elevated tensions in the Middle East prompted concern over the potential for further disruption to global trade. While there has been much speculation over the timing of rates cuts from major global central banks, to date it has not proved possible for UK policy makers to ease monetary policy from the current restrictive stance.
4. The Bank of England increased the Bank Rate from 4.25% at the start of the year to 5.25% by August 2023 with the policy rate remaining at this level at each subsequent meeting of the Monetary Policy Committee (MPC). At the meeting in March 2024, members of the MPC highlighted concern over the persistence of inflation which in recent months has remained elevated above expectations. Market commentators speculate that there could be two rate cuts during 2024, however this will be influenced by the path of inflation over coming months.
5. Given the volatility throughout 2023/24 a cautious approach has been adopted with regards to funding the authority's capital spend. No new borrowing was arranged during the year, instead investments have been reduced as a means of deferring the point by which the Authority needs to borrow. Given the profile in recent years whereby the capital financing requirement has been fully matched by external borrowing, there is the capacity to adopt this course on the expectation that interest

rates will be more favourable over the next 12-24 months. Given the long-dated nature of the authority's existing borrowing portfolio there is also scope for shorter term borrowing where this proves advantageous.

6. PWLB rates and gilt yields have seen volatility over the course of the financial year, with long term PWLB rates varying from a low of 4.46% to a peak of 5.93%. At the start of the financial year long term PWLB rates were 4.59% and finished the financial year higher at 5.21%.
7. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt. The rise in interest rates during 22/23 & 23/24 exceeded many forecasters expectations, the question is now whether this will be sustained at a new elevated level or if they will have to be cut as a response to a slowing economy and as the lagged impact of monetary tightening continue to take effect on the economy.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

8. The borrowing requirement comprises of the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did envisage that there would be new long-term borrowing in 2023/24 driven by the financing need of the capital programme, however, no new long-term borrowing was arranged given the unfavourable environment. In the current conditions it is intended to reduce investments and defer new long-term borrowing were this is possible. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

9. The investment strategy for 2023/24 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with central government regulations and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.
10. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns which were able to benefit in a rising interest rate environment. The credit ratings and individual limits for each institution to be used by the Authority in 2023/24 are outlined below:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m

Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

The average rate of return achieved on average principal available in 2023/24 was 4.60%. This compares with an average Sterling Overnight Rate (SONIA) of 4.97%. Deposits that were placed for extended terms during the year tended to average returns below that of overnight returns. An interest rate rising environment, effectively acted as a dampener on returns, the opposite of what might typically be expected. However, it remains prudent to maintain a balanced investment portfolio and not have all investments placed in overnight instruments.

- The Investment Strategy specified that investments are only made with banks with a high credit rating. UK banks must have at least an “A” long term rating for inclusion on the Authority’s counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority’s list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

EXTERNAL DEBT PRUDENTIAL INDICATORS

- The external debt indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£79 million
Operational boundary for external debt:	£66 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2023/24 was £33.9 million.

- Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority’s gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31 March 2023	31 March 2024	31 March 2025
	Actual	Actual	Estimate
	£'m	£'m	£'m
Capital Financing Requirement	51.4	61.4	69.5
Less: PFI	(16.4)	(15.8)	(15.2)
Less:MRD	(0.1)	(0.1)	(0.1)
Borrowing CFR	34.9	45.5	54.2
Existing Debt Portfolio	33.7	33.7	41.7
Over(-)/Under borrowing	1.2	11.8	12.5
Borrowing as a % of CFR	96.56%	74.07%	76.94%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

14. The treasury management indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	50%

The maximum that was reached in the financial year 2023/24 was as follows:

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit at any time in the financial year 2023/24 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	0%	0%
12 months and within 24 months	50%	0%	0%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	100%	100%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 365 days was set at £2 million for 2022/23. One investment for £2m, longer than 365 days, remained in place after being arranged during 2022/23. No further investments longer than 365 days were arranged during 2023/24.

PERFORMANCE INDICATORS

15. The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.
16. The indicators for the treasury function are:

Borrowing - Average rate of long term borrowing for the year compared to average available. No new long-term borrowing was arranged in 2023/24.

Investments – Internal returns compared to the average Sterling Overnight Rate (SONIA). The return in the financial year 2023/24 was 0.37% below the benchmark.

TREASURY MANAGEMENT ADVISORS

17. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisers appointed under a competitive procurement exercise who provide a range of services which include: -
 - Technical support on treasury matters, capital finance issues.
 - Economic and interest rate analysis.
 - Debt services which includes advice on the timing of borrowing.
 - Debt rescheduling advice surrounding the existing portfolio.
 - Generic investment advice on interest rates, timing and investment instruments.
 - Credit ratings/market information service comprising the three main credit rating agencies.
18. Whilst Liverpool City Council and its advisers provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

19. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing

includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

20. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
21. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
22. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

IFRS 16

23. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC has announced an optional two year delay to the implementation of this standard; a decision which was subsequently confirmed by the Financial Reporting Advisory Board in early April 2022.

CONCLUSION

24. Treasury Management activity in 2023/24 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2024	REPORT NO:	CFO/29/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	THE ANNUAL GOVERNANCE STATEMENT 2023/2024		

APPENDICES:	APPENDIX A:	2023/2024 ANNUAL GOVERNANCE STATEMENT
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Purpose of Report

1. The purpose of this report is to present to Members the Authority's Annual Governance Statement. This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

Recommendation

2. It is recommended that Members approve the 2023/2024 Annual Governance Statement.

Introduction and Background

3. The Annual Governance Statement (AGS) is the formal statement that recognises, records, and publishes a Council or Authority's governance arrangements. Attached as Appendix A to this report is the 2023/2024 AGS for Merseyside Fire and Rescue Authority, which explains the processes and procedures in place to enable the Authority to carry out its functions effectively. The AGS also links into the Annual Statement of Assurance by providing assurance about the Authority's governance framework.
4. The CIPFA/SOLACE – Delivering Good Governance in Local Government Framework, is deemed to represent best practice in relation to governance and the internal control systems and processes. The CIPFA/SOLACE framework recommends that a review of the effectiveness of the system of internal control should be reported as part of the AGS. A review of the effectiveness of the Authority's 2023/2024 internal control system has been undertaken and, in accordance with the CIPFA guidance, incorporated in the attached AGS. The AGS identifies the ways in which the Authority has ensured that its control mechanisms are adequate during the year, including the work undertaken by

internal and external audit. The overall conclusion of the AGS is that the system of internal control is adequate (any control system can provide only reasonable assurance and not absolute assurance).

5. Members are asked to approve the 2023/2024 AGS attached as Appendix A to this report.

Equality and Diversity Implications

6. Good governance and sound internal control includes having effective practices to manage equality and diversity issues.

Staff Implications

7. There are no staff implications arising from this report.

Legal Implications

8. Regulation 6(1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare an annual governance statement. Regulation 6(2) require that the findings of a review of an organisation's system of internal control is to be considered by a committee of the relevant body, or by members of the body meeting as a whole, once a year. The AGS fulfils that obligation.

Financial Implications & Value for Money

9. A sound system of internal control is essential for the overall control of the Authority's finances. There are, however, no direct financial implications arising from the Statement.

Risk Management and Health & Safety Implications

10. Good governance and sound internal control arrangements will ensure the Authority's policies, procedures and objectives are being fulfilled.

Environmental Implications

11. There are no environmental implications arising from this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

12. Good governance and sound internal control arrangements will ensure the Authority's vision is known by all and drives and directs the Service outcomes.
13. Merseyside communities are safer and the firefighters who serve Merseyside are safer and more effective because the Authority has effective leadership and

makes decisions that deliver strong financial management and efficient and effective service delivery. Robust and comprehensive governance arrangements are integral to this performance.

BACKGROUND PAPERS

CFO/020/17 Code of Corporate Governance, Policy and Resources Committee 23rd March 2017.

Delivering Good Governance in Local Government – Guidance Notes for English Authorities, C.I.P.F.A. (2016)

Delivering Good Governance in Local Government – Framework, CIPFA/SOLACE (2016)

Account and Audit (England) Regulations 2015

GLOSSARY OF TERMS

AGS Annual Governance Statement

CIPFA Chartered Institute of Public Finance and Accountancy

MFRA Merseyside Fire & Rescue Authority

SOLACE Society of Local Authority Chief Executives and Senior Managers

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2023/2024 MERSEYSIDE FIRE AND RESCUE AUTHORITY **ANNUAL GOVERNANCE STATEMENT**

1.0 SCOPE OF RESPONSIBILITY

- 1.1** Merseyside Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2** In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, delivering its functions, and arrangements for the management of risk.
- 1.3** Corporate Governance is a phrase used to describe how organisations direct and control what they do. For Fire and Rescue Authorities this also includes how an Authority relates to the communities that it serves. The Authority has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE framework “*Delivering Good Governance in Local Government*” (2016). The key principles of the Authority’s Code of Corporate Governance are outlined below;
1. Three high level principles underpin Corporate Governance:-
 - Openness and inclusivity
 - Accountability
 - Integrity
 2. These high level principles are supported by seven detailed principles of good governance which are:
 - **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**
 - **Ensuring openness and comprehensive stakeholder engagement**
 - **Defining outcomes in terms of sustainable economic, social, and environmental benefits**
 - **Determining the interventions necessary to optimise the achievement of the intended outcomes**
 - **Developing MFRA capacity, including the capability of its leadership and the individuals within it**
 - **Managing risks and performance through robust internal control and strong public financial management**
 - **Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- 1.4 This statement also **fulfils the Authority’s statutory requirement** to prepare a **statement of internal control** in accordance with proper practices, and to **present an annual review of the effectiveness** of the current system.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with, and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31st March 2024.

3.0 THE GOVERNANCE FRAMEWORK

- 3.1 Summarised below are some of the key elements of the systems and processes that underpin the Authority’s governance arrangements:
- 3.2 **Identifying and Communicating the Authority’s Vision and outcomes for citizens and service users:**
- 3.2.1 After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the vision, aims and service objectives for the organisation. The Authority approved a new IRMP for the period of 2021- to 2024. The proposals in the current IRMP are aligned to the Authority’s medium term financial plans and have therefore been adequately resourced. In 2024 the IRMP is being changed to a Community Risk Management Plan which will be drafted and subsequently consulted on prior to being presented to Members for approval.
- 3.2.2 The Authority’s Vision reflects a clear focus on the core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection. The Authority’s vision is; ***To be the best Fire & Rescue Service in the UK, (One team, putting its communities first)***. To deliver this the Authority has established four key corporate aims:

- **Protect**
We protect people from harm, provide advice, guidance and when absolutely necessary use enforcement to keep the public and our firefighters safe.
- **Prevent**
We are there for you. We are a visible presence that provides reassurance, support and advice. Alongside our partners, we protect the most vulnerable and reduce inequalities.
- **Prepare**
We will always be the best that we can be by having highly skilled and trained people who plan for every risk and keep our teams safe and effective.
- **Respond**
We will be there when you need us most, pulling out all the stops to save lives. Whether we are taking 999 calls, or attending incidents, we keep our communities safe.

The vision is focused upon outcomes around operational preparedness, response, prevention and protection. It is very important that the organisation's priorities are unambiguous and easily understood by Members, staff, communities and other stakeholders.

3.3 **Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:**

3.3.1 The IRMP and other service projects are incorporated into one document – the Service Delivery Plan. There is an ongoing system of monitoring and reporting on the achievement of projects in the Service Delivery Plan via regular reports to the Community Safety and Protection Committee (or any other Committee if applicable) and the Strategic Leadership Team. Station Community Safety Plans have also been developed to give details of the activities taking place throughout Merseyside. The reporting process applies traffic light status for each performance indicator in the Service Delivery Plan and attention is drawn to progress achieved and matters to be addressed. Copies of the Service Delivery Plan can be found on the Authority's website.

3.4 **The Internal Control Environment:**

3.4.1 The Authority's internal control mechanism comprise many systems, policies, procedures and operations, however the system cannot eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority where possible eliminates the risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.4.2 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** with agreed Terms of Reference that are reviewed once a year by the Authority at its Annual General Meeting. The

Authority has a **written Constitution** that was reviewed in 2023/24 and approved by the Authority at its meeting on 8 June 2023 (CFO/030/23), which is published and sets out how the Authority operates, how decisions are made, and the procedures which are followed to ensure these are efficient, transparent and accountable to local citizens. The Constitution is reviewed every year by the Authority at its AGM.

The Authority meet with Strategic Managers and other stakeholders as required to consider the strategic vision and instigate future plans/targets for the Authority.

The Authority also runs member strategy days and “learning lunches” to help Members discuss issues in more detail and in an informal environment.

3.4.3 Management Structure

Management Structure - The Authority has a **clear management structure** with defined roles and responsibilities. A Strategic Leadership Team (SLT), meet on a fortnightly basis to review and agree on issues that arise during the year. SLT have established strategic boards to feed into SLT, the role of each board is to consider any issues associated with that board’s remit and if necessary make a recommendation on the matter for SLT to consider. The Authority has an **approved scheme of delegation within its Constitution** that is reviewed by Members on an annual basis.

3.4.4 Established Policies, Procedures & Regulations

The Authority ensures compliance with established policies, procedures, laws and regulations. Information regarding policies and procedures is held on the intranet, and these are continuously enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of standing orders, financial instructions and the scheme of delegation which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the **key policies and process in place to enhance the internal control system** that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations, Procedural & Contract Standing Orders, Scheme of Delegation
- Anti-Fraud & Corruption Policy & Strategy
- Whistleblowing Policy
- Complaints Procedure
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity Policies and Procedures
- Staffing Model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedure, discipline process, through to performance development reviews

- Information Governance and Security – Policies and Service Instructions to protect the Authority’s information, data, and assets.

3.4.5 SLT carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans.

3.4.6 Internal Audit function

The Authority has a strong Internal Audit function arrangement with Liverpool City Council, and has well-established protocols for working with External Audit.

3.4.7 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. The Audit Committee has corporate ownership of the risk register and receive regular updates on any new risks or changes to risks. As all Authority and service reports to SLT have a standing section on risk this allows SLT an opportunity to regularly consider new and updated risks facing the Service at their fortnightly meetings.

3.4.8 Financial Management

The Authority produces a five year financial plan that takes into account Revenue, Capital, Reserves and Prudential Borrowing forecasts. The Authority has a history of strong and effective financial management. Financial management in the Authority and the reporting of financial standing is undertaken through a comprehensive Finance system including a general ledger, accountancy and budgeting. Monthly budget statements are sent out to all cost centre managers and the Authority receives regular comprehensive financial review reports to update members on the current and anticipated year-end financial performance.

4.0 REVIEW OF EFFECTIVENESS

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the SLT and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal Audit

4.3 The Authority and Its Committees

4.3.1

The Authority considered at its Annual General meeting on 8th June 2023 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of

committee responsibilities can be found in the Constitution document on the Authority's web site, but are summarised as follows;

- The Authority – Considers variations to standing orders and financial regulations, the revenue budget and capital plan, levying or issuing of a precept or borrowing. Adopting a member's allowances scheme, Appointing the Chair and Vice Chair of the Authority and the Chairs of the Committees and any Sub-Committees of the Authority. Approves new policies or substantive changes in policy relating to the development and delivery of services appropriate to the Authority. Determines the Authority's precept and approves the Authority's budget and the delegated powers to officers. Maintain an overview of the effectiveness of the Constitution. Any other matters which by law must be reserved to the Authority itself.
- The Policy and Resources Committee – Under delegated powers, determine new policies or substantive changes in policy relating to the development and delivery of Services appropriate to this Committee. Oversees the Authority's Communication and Consultation Strategy and receives related reports. Considers all matters related to the management of the Authority's assets including buildings, land, ICT and other assets. Exercises financial control over expenditure within the approved revenue budgets and capital programme of the Authority. Establish and direct procedures for the implementation, monitoring and amendment of the revenue budget and capital programme and all other financial matters that impact on the Authority's financial position.
- The Community Safety and Protection Committee – Under delegated powers, determine new policies or substantive changes in policy relating to the development and delivery of Services appropriate to this Committee. Consider all matters related to the delivery of Services to the diverse communities of Merseyside and the development, promotion and delivery of a co-ordinated strategy for developing and maintaining safer communities. This includes matters relating to: Operational Preparedness; Operational Response; Prevention and Protection. Consider any matters relating to the provision of Services to the diverse communities of Merseyside and the development, promotion and delivery of a coordinated strategy for developing and maintaining safer communities.
- The Scrutiny Committee – To review and/or scrutinise the objectives of the Authority's Integrated Risk Management Plan (IRMP) and performance against these objectives. To carry out joint member/officer pre and post-implementation scrutiny of any major project, scheme, or key decision taken by the Authority or its standing committees. To make recommendations to the Policy and Resources Committee and/or the Community Safety and Protection Committee and/or Authority arising from the outcome of the scrutiny process and how any improvements can be made. To agree and action a scrutiny forward work plan throughout the year and from meeting to meeting that includes matters relating to the performance of the Authority against the IRMP or any such issues referred to by the full Fire Authority and report back. To participate in, determine and undertake a task and finish group as appropriate with a view to effecting continuous improvements in the way Services are delivered, having regard to a combination of economy, efficiency and effectiveness.

- The Joint Police & Fire Collaboration Committee – To act as a Strategic Board to oversee collaboration between Merseyside Police (MP) and the Authority. To consider any reports on proposals for collaboration and potential budget savings or working arrangements. As the Police and Crime Commissioner for Merseyside is appointed onto the Authority this Committee will be convened as and when necessary.
- The Audit Committee – To consider the internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give the Authority's corporate governance arrangements. To consider and approve summaries of specific internal audit reports as requested. To consider reports dealing with the management and performance of the providers of internal audit services. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance. To comment on the scope and depth of external audit work and to ensure it gives value for money.

To maintain an overview of the Authority's constitution in respect of contract procedure rules, financial regulations and codes of employee conduct and behaviour. To monitor the effective development and operation of risk management and corporate governance in the Authority.

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority. To consider the external auditor's report to those charged with governance on issues arising from the audit of accounts.

To determine allegations made under the Member Code of Conduct Procedure and refer sanctions proposed and any complaint allegation requiring further investigation to the Authority's Appeals Committee. To act as the Investigating and Disciplinary Committee where an allegation is made against the Chief Fire Officer, Deputy Chief Fire Officer, Assistant Chief Fire Officer, Monitoring Officer or the Director of Finance and Procurement in line with the Authority's policy for Discipline Procedures for Relevant Officers.

To appoint task and finish groups to undertake detailed work, involving relevant Scrutiny Members, key reference holders and relevant officers.

- The Appeals Committee – Consider and determine appeals referred from the Audit Committee in relation to the Members Code of Conduct. To consider whether to assent to applications for specific licences as may be referred to the Committee by the Health and Safety Executive or the Chief Fire Officer.
- The Appointments Committee - To consider and determine for appointment to the posts and offices of the Chief Fire Officer, Deputy Chief Fire Officer, Director of Finance & Procurement (Treasurer), Monitoring Officer and any other posts referred to the committee for consideration.

- Member Development & Engagement Group - To promote the continuous development of Members of the Authority and consider proposals and options for arrangements in respect of Members' training and development
- Local Pension Board (Firefighters' Pension Scheme(s)) - To assist the Authority in its role as 'Scheme Manager' for the Firefighters' Pension Scheme(s), as required by the Pension Scheme (Amendment) (Governance) Regulations 2015 Regulation 4A.

4.4 Management Review

4.4.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems. The Head of Internal Audit, procured via the service agreement with Liverpool City Council, provides some assurance on the adequacy of the Authority's internal control arrangements and also plays a key role in promoting good corporate governance. The Authority's Head of Internal Audit arrangement ensures the Authority assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority's management structure and processes. The 2023/24 Service Delivery Plan broke down the Authority's key objectives for the year and identified a lead officer for each project. A "traffic light" system identified the actual progress against performance indicators throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Community Safety and Protection Committee. SLT received regular updates from managers on the delivery of services against targets throughout the year and this allowed senior management an opportunity to scrutinise progress. Performance against Local Performance Indicators is considered in depth each month by the Performance Management Group.

4.4.3 The Risk Register was updated for new risks and the status of existing risks was re-assessed during the year. The Register considers the Authority's tolerance for risk and any mitigating actions that can reduce the likelihood/severity of the perceived risk. Risk management continued to be an integral part of the project management process and was a fundamental aspect of the business of the Authority.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer (Section 5 LGHA) responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. The Head of Legal Services fulfils this role, is a qualified and experienced lawyer, and is supported by a legal team. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with so far as is known by the Monitoring Officer.

- A Responsible Finance Officer, in line with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) and Section 73 LGA 1985, to ensure the proper and effective administration of the financial affairs of the Authority. The Director of Finance and Procurement fulfils this role and is a qualified and experienced accountant. The Director of Finance and Procurement is supported in this role by a Head of Finance and Finance Team that includes a number of professionally qualified and experienced finance staff. The Director of Finance and Procurement ensures the Authority has an approved, realistic and affordable five year financial plan for revenue and capital expenditure which links to the IRMP and the Service Delivery Plan. The financial planning process is well embedded and understood across the Authority by staff and members. Details of the approved budget are available to all stakeholders in a simple and summarised statement on the Authority's website.

The above statutory posts are key members of SLT.

- 4.4.5 Budget monitoring remained robust at strategic and service levels via the production of monthly financial monitors for cost centre managers. The "funds management" system prevents orders being raised against accounts with insufficient budget and provides an affective enhancement to the budget control process.
- 4.4.6 CIPFA have produced a Financial Management Code to support good practice in financial management and to assist fire & rescue and local authorities in demonstrating their financial sustainability. The Director of Finance and Procurement has carried out an assessment of the Authority's conformity to the CIPFA Statement of Principles of Good Financial Management. No significant areas of weakness have been identified.
- 4.4.7 Grant Thornton approved an unqualified Statement of Accounts for 2022/23. The Authority appointed new auditors Mazars, for 2023/24 and it is anticipated the Authority will receive an unqualified opinion in 2023/24. A detailed year-end report is presented to the Authority in a clear and understandable format. A simplified summary statement of accounts is available on the Authority's website to ensure the outturn position is communicated effectively to all stakeholders.

4.5 Internal Audit

The Authority procured its internal audit service under a service level agreement from Liverpool City Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2023/24, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports are submitted to the relevant managers as appropriate and the Director of Finance and Procurement. An interim and year-end Internal Audit Plan reports are submitted to the Audit Committee that included summary findings of all completed audit reports and implementation of any agreed recommendations.

Although at the time of writing the AGS Internal Audit have yet to finalise all of the 2023/24 audit reviews the findings to date suggest;

- substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice, and
- the work on fundamental systems audits completed to date have shown a substantial level of compliance, and no significant control weakness, which impact on the Annual Governance Statement, have been identified.

4.6 External Review

4.6.1 External audit services are carried out by Mazars. The scope of the work undertaken by External Audit is;

- The audit of the financial statements
- To reach a conclusion on the economy, efficiency and effectiveness in the use of resources (the value for money (VFM) conclusion
- To work on the whole of government accounts return.

4.6.2 External Audit will comment upon the Authority's 2023/24 statutory financial statements and make a VFM conclusion during the 2024/25 financial year in the Annual Audit Findings report and Annual Audit and Inspection Letter. These documents reflect the Auditor's findings and conclusions from auditing the Statement of Accounts. During 2023/24 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2022/23 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2022/23 financial statements.

4.7 Year-end Review

4.7.1 Current governance and internal control arrangements continue to be reviewed and refined on an ongoing basis and that they continue to be regarded as fit for purpose in accordance with the governance framework. This review provides an acceptable overall assurance of the effectiveness of the Authority's system of internal control.

5.0 SIGNIFICANT GOVERNANCE ISSUES

5.1 The CIPFA guidance suggests that the following criteria should be applied when judging what may constitute a significant control issue:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.

- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

5.2 Whilst no significant weaknesses have been identified in control systems at present, the assumptions made in the Medium Term Financial Plan (MTFP), particularly around inflation, pay awards, pensions and future government grants (whilst based on the best information available) **are subject to potential change**. The Director of Finance and Procurement will ensure that any variation to the assumptions made in the MTFP are identified at the earliest possible time, and, reported to Members' through the quarterly financial review reports. The Authority has established specific reserves to cover the risk of a variation to the key assumptions in the MTFP and these reserves would allow the Authority time to approve structural changes to deliver the required permanent savings over the longer term.

5.3 The 2017 Policing and Crime Act places a statutory duty on the three emergency services (Ambulance, Fire and Police) to keep collaboration opportunities under review and to collaborate where this would improve efficiency and effectiveness. The Authority continues to maintain ongoing discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration.

CERTIFICATION

6.0 **To the best of our knowledge, the governance arrangements, as defined above, have been operating during the year and up to the date of the approval of the Annual Accounts, providing an effective framework for identifying governance issues and taking mitigating action. Over the coming year the Authority will continue the operation of its governance framework and take steps to carry out the actions for managing any governance issues identified above or that materialise in the year.**

Signed.....
 J. GRACE
 CHAIR of AUDIT COMMITTEE

Signed.....
 P. GARRIGAN
 CHIEF FIRE OFFICER

Signed
 M. REA
 DIRECTOR OF FINANCE & PROCUREMENT

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2024	REPORT NO:	CFO/30/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	MAZARS AUDIT PROGRESS REPORT 2023/2024		

APPENDICES:	APPENDIX A: MAZARS AUDIT PROGRESS REPORT
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Purpose of Report

1. To present to Members, Mazars Audit Progress Report that outlines the Auditor’s approach to auditing Merseyside Fire and Rescue Authority’s (‘Authority’) 2023/2024 financial statements.

Recommendation

2. It is recommended that Members note Mazars Audit Progress Report 2023/2024 and the timing of the Authority’s 2023/2024 audit of the financial statements.

Introduction and Background

3. The Authority is required to prepare a set of financial statements annually as required by the relevant codes and regulations. The deadline for the production of the unaudited financial statements is by the end of May in the following year.
4. The financial statements must then be audited by an independent auditor, who will then issue an opinion on the statements. Members will be aware that the Authority chose to opt into the Public Sector Audit Appointments (PSAA) national scheme for the appointment of the Authority’s external Auditors. Mazars have been appointed as the Authority’s external Auditor.
5. The Accounts and Audit (amendment) Regulations 2022 came into force on 22nd July 2022 and extended the deadline for the publication of final audited financial statements annually from 31st July to 30th September for the following 4 years. Therefore, the deadline for the publication of final 2023/2024 audited financial statements is 30th September 2024.

6. The audit deadlines for England have been subject to DLUHC consultation and the Authority is currently awaiting the outcome, therefore these deadlines may change in the near future. The proposed changes to the 2015 Regulations would require authorities to publish audited accounts by the following dates for financial years 2023/2024 to 2027/2028:

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

However, at the time of writing the report, the regulations remain unaltered.

7. Mazars Audit Progress Report (attached to this report as Appendix A) has been provided by the external auditors, to detail the progress to date on the review of the statement of accounts.

Equality and Diversity Implications

8. There are no equality and diversity implications arising from this report.

Staff Implications

9. There are no staff implications arising from this report.

Legal Implications

10. The current regulations require the unaudited financial statements to be prepared by 31st May in the year following the end of the financial year, and the statements to be audited by 30th September. The audit accounts deadlines for England are subject to DLUHC consultation and may therefore change.

Financial Implications & Value for Money

11. The 2023/2024 external audit fee, £97,117 has been included within the budget.

Risk Management and Health & Safety Implications

12. Failure to prepare the financial statements or have them audited within the statutory deadlines may have an adverse impact on the Authority's financial management reputation.

Environmental Implications

13. There are no environmental implications arising out of this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

14. The achievement of sound financial administration and value for money arrangements is essential if the Service is to achieve the Authority's vision.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

DLUHC Department for Levelling Up, Housing and Communities

PSAA Public Sector Audit Appointments

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Audit Progress Report

Merseyside Fire and Rescue Service

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01

Section 01: **Audit Progress**

Audit progress

Purpose of this report

This report provides the Audit Committee with information about progress in delivering our responsibilities as your external auditors for Merseyside Fire and Rescue Service.

As a result of the proposed backstop arrangements currently being considered by DLUHC, all audit suppliers are currently working towards a 30 September 2024 deadline for all audits for the 31 March 2023 financial year and earlier, where these are not yet complete. Although no formal decisions have been taken by Ministers, this proposal, if enacted, will impact on the delivery of the Merseyside Fire and Rescue Service audit for the year ended 31 March 2024.

In this context, we have had an initial discussion with management about the delivery of your audit. We are committed to the delivery of both high quality and timely audits and our expectation for delivery of the audit is as follows:

- Planning: October 2024
- Fieldwork: October – December 2024
- Completion: December 2024 / January 2025

This plan is subject to change should there be any changes to the expected backstop arrangement.

Our Audit Strategy Memorandum is the report which details our audit plan. We aim to present this to an Audit Committee later in the year.

2023/24 Financial Statements Audit

Notwithstanding the above timing, we have made a start on our initial planning processes to support your audit. This means we are undertaking our early risk assessment procedures to support us in developing our understanding of the fire and rescue service. We are also putting in place arrangements to review our predecessor auditor's file in order to gain assurance about your opening balances.

This work supports the development of our audit strategy in respect of your financial statements.

Audit progress

2023/24 Value for Money work

We have started our initial risk assessment work in respect of the arrangements in place in respect of:

- Financial sustainability: how the fire and rescue service plans and manages resources to ensure the continued delivery of services;
- Governance: how the fire and rescue service ensures decisions are informed and risks properly managed; and
- Improving economy, efficiency and effectiveness: how the fire and rescue service uses information about costs and performance to improve the way services are managed and delivered.

Our risk assessment procedures will continue throughout the audit.

Based on our work to date, we have not identified any risks of significant weakness in the arrangements to draw to your attention.

02

Section 02:

National publications

National Publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy ('CIPFA')		
1	CIPFA Bulletins	CIPFA has recently issued two Bulletins to provide further guidance on the financial reporting requirements.
National Audit Office ('NAO')		
2	NAO report: Use of artificial intelligence in government	The NAO has published its report entitled "Use of artificial intelligence in government".
3	NAO good practice - Digital transformation in government: a guide for senior leaders and audit and risk committees	The NAO has published a guide for senior leaders and audit and risk committees on Digital transformation in government. The guide can support those tasked with overseeing large-scale digital change to understand the core issues and pitfalls to avoid.
His Majesty's Inspectorate of Constabulary and Fire & Rescue Services ('HMICFRS')		
4	Effectiveness, efficiency and people 2023/25 – Merseyside Fire and Rescue Service	This inspection contains HMICFRS's third assessment of Merseyside Fire and Rescue Service's effectiveness and efficiency, and how well it looks after its people
Home Office		
5	Fire statistics	The Home Office's collection of detailed information on incidents attended by Fire and Rescue Services.
6	Fire safety in the home	The Home Office's safety advice for different groups of people inside and outside the home.
7	Detailed analysis of non-fire incidents attended by fire and rescue services in England	National statistics on non-fire incidents attended by fire and rescue services in England.
8	Reforming our fire and rescue service	Outcome of proposals to introduce system-wide reform that will strengthen fire and rescue services in England.
Other		
9	Financial Reporting Council ('FRC') - FRC report on quality of major local audits	Report on the quality of major local audits

National Publications

1. CIPFA Bulletins

Bulletins issued by CIPFA, with the assistance of CIPFA panels, provide practitioners with topical guidance on specific issues and accounting and reporting developments. CIPFA has issued the following Bulletin's in recent months:

[CIPFA Bulletin 17 Closure of the 2023/24 Financial Statements](#)

This bulletin covers the closure of accounts for the 2023/24 year and provides further guidance and clarification to complement the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2023/24 Code Guidance Notes.

[CIPFA Bulletin 17 Closure of the 2023/24 Financial Statements](#)

[CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement](#)

CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement is intended to provided clarity to those authorities with at least one set of unaudited financial statements for prior years, and their external auditors, on the update of the annual governance statement ('AGS').

[CIPFA Bulletin 16 Local audit delays and the publication of the annual governance statement](#)

National Publications

2. NAO report: Use of artificial intelligence in government

The NAO has published its report entitled “Use of artificial intelligence in government”. The report considers how effectively the government has set itself up to maximise the opportunities and mitigate the risks of artificial intelligence (‘AI’) in providing public services.

The primary focus for this report is the role of the Cabinet Office and the Department for Science, Innovation & Technology (‘DSIT’) in supporting the adoption of AI in the public sector. Specifically, the report looks at:

- the government’s strategy and governance for AI use in public services (Part One).
- how government bodies are using AI and how government understands the opportunities (Part Two).
- central government’s plans for supporting the testing, piloting and scaling of AI; and progress in addressing barriers to AI adoption (Part Three).

<https://www.nao.org.uk/reports/use-of-artificial-intelligence-in-government/>

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3. NAO good practice - Digital transformation in government: a guide for senior leaders and audit and risk committees

The NAO has published a guide for senior leaders and audit and risk committees on Digital transformation in government. The guide can support those tasked with overseeing large-scale digital change to understand the core issues and pitfalls to avoid. The guide identifies seven areas where the more persistent obstacles stand in the way of successful digital transformation in government and have grouped them into three themes:

- Constraints of the existing environment
- Under-estimating the scope of early work
- Lack of skills and leadership

<https://www.nao.org.uk/insights/digital-transformation-in-government-a-guide-for-senior-leaders-and-audit-and-risk-committees/>

National Publications

4. HMICFRS: Effectiveness, efficiency and people 2023/25 – Merseyside Fire and Rescue Service

The report published in October 2023 details the inspection carried out of Merseyside Fire and Rescue Service. This inspection assessed eleven areas, three were rated as outstanding, five as good and three as adequate. There were no areas identified as requiring improvement or inadequate.

[Effectiveness, efficiency and people 2023/25 – Merseyside Fire and Rescue Service - His Majesty's Inspectorate of Constabulary and Fire & Rescue Services \(justiceinspectorates.gov.uk\)](https://www.justiceinspectorates.gov.uk/hmicfrs/reports/2023/25-merseyside-fire-and-rescue-service/)

5. Home Office: Fire statistics

The Home Office collects detailed information on incidents attended by Fire and Rescue Services. This also includes information on the workforce, fire prevention work, health and safety and firefighter pensions.

[Detailed analysis of fires attended by fire and rescue services, England, April 2022 to March 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/detailed-analysis-of-fires-attended-by-fire-and-rescue-services-england-april-2022-to-march-2023)

6. Home Office: Fire Safety in the Home

The Home Office releases fire safety advice for different groups of people inside and outside the home. This includes:

- Making your home safe from fire
- Fire safety in flats
- Fire safety outdoors
- Fire safety in shared or rented accommodation

[Fire safety in the home - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/fire-safety-in-the-home)

National Publications

7. Home Office: Detailed analysis of non-fire incidents attended by fire and rescue services in England

The Home Office releases national statistics about non-fire incidents attended by Fire and Rescue Services in England on an annual basis. These statistics are sourced from the Home Office's online Incident Recording System and include statistics on all non-fire incidents and related fatalities and non-fatal casualties, with long term comparisons.

[Detailed analysis of non-fire incidents attended by fire and rescue services, England - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/detailed-analysis-of-non-fire-incidents-attended-by-fire-and-rescue-services-in-england)

8. Home Office: Reforming our fire and rescue service

The December 2023 response to the fire reform white paper. The white paper considered reform being required across a variety of areas:

• Page 53

- People
- Professionalism
- Governance

The report summarises the consultation responses and sets out the Government's strategy for reform following a growing number of concerning national reports and the Grenfell Tower Inquiry.

[Reforming our fire and rescue service - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/reforming-our-fire-and-rescue-service)

National Publications

9. Financial Reporting Council ('FRC') - FRC report on quality of major local audits

The FRC has published its report on the quality of major local audits which summarises the FRC's regulatory approach for financial years up to and including the year ended 31 March 2023 and sets out the findings from the 2022-23 inspections cycle.

The FRC reviews in the 2022-23 inspection cycle comprised six health and four local government audits. The audits inspected had year-ends in March (or in one case May) 2021 (local government) and March 2022 (health). For local government audits, inspections were selected from those finished in the 2022 calendar year (regardless of the financial year the audit related to) due to the challenges brought on by the backlog. Therefore, more audits were inspected from the health sector and as a result, the findings in the report are more indicative of audit quality in the health sector. Across all suppliers, all financial statement audits were assessed as "good" or "limited improvements required". Areas requiring limited improvements included:

- Audit procedures regarding completeness and accuracy of expenditure.

On the audit of one NHS Trust, the inspection concluded that audit procedures were not sufficiently tailored to address the impact of backlog maintenance on property, plant and equipment valuations.

In terms of value for money ('VfM') inspections, six related to health and three local government bodies. This is less than the number of financial statement audits inspected because the auditor's work on VfM arrangements was not complete on one audit that was inspected. All VfM inspections were assessed as good or limited improvements required. Areas requiring limited improvements included:

- Risk assessment procedures not being performed in a timely manner.
- Not considering the arrangements in place at the body to manage, monitor and oversee its subsidiaries.
- The audit team not updating their initial risk assessment or reporting to consider how the body had achieved its outturn financial position.

Examples of good practice have also been included in the report regarding risk assessment, execution of the audit, and audit completion and reporting.

[FRC publishes report on the quality of major local audits amid delays in local government](#)

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2024	REPORT NO:	CFO/31/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	2023/24 ANNUAL YEAR-END INTERNAL AUDIT REPORT		

APPENDICES:	APPENDIX A:	2023/2024 ANNUAL INTERNAL AUDIT REPORT
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Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2023/24.

Recommendation

2. It is recommended that Members note the contents of the Internal Audit Report for 2023/2024.

Introduction and Background

3. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources (Source: Code of Practice for Internal Audit in Local Government).
4. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems (Accounts and Audit Regulations 2015).
5. In order to fulfil these functions, the Authority buy-in Internal Audit services from Liverpool City Council. Each year Internal Audit submit a plan for their work following consultation with the Director of Finance and Procurement, and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The 2023/24 plan was considered by the Audit Committee on 24 May 2023 (CFO/019/23).

6. The Annual Internal Audit report and opinion for 2023/24 is attached as Appendix A. On the basis of the reviews undertaken, Internal Audit have concluded that;

it is our opinion that we can provide substantial assurance that the system of internal control in place at MFRS accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year and includes consideration of the wider sources of assurance provided to the Authority..... Based on the audit work carried out in 2023/24 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement

7. During the year, Internal Audit have completed twelve audits, two of these are in draft and a further two are work in progress. No significant issues were identified in the course of the fundamental systems audits. The audit coverage during the year has provided sufficient evidence that controls in place to govern the core financial systems are sound and that they are substantially adhered to. No significant control weaknesses were identified and a strong control environment continues to be maintained. The vehicle fuel card audit identified that the service instruction could benefit from a review and a few minor additions to enhance clarity and the control environment.

Appendix A provides more details on the audit reviews. The tables below summarises the audit reviews and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Medium Term Financial Plan			
Debtors			
Treasury management			
Budgetary Control			
Creditors	Substantial	Good	Draft
Payroll	WIP	WIP	WIP

Audit Title	Control Environment	Compliance	Corporate Impact
Vehicle fuel cards	Substantial	Good	Minor
Foreign, Commonwealth & Development Office Grant Funding	Substantial	Substantial	Minor
Bullying, harassment, discrimination processes	Draft	Draft	Draft
Enforcement powers	Draft	Draft	Draft
Flexi Duty Provided Vehicles	WIP	WIP	WIP

8. Copies of any audit report can be made available to any Member of the Committee should they wish to review the contents and recommendations in greater detail.

Equality and Diversity Implications

9. There are no equality or diversity implications arising from this report.

Staff Implications

10. There are no staff implications arising from this report.

Legal Implications

11. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2015 s.5(1)).

Financial Implications & Value for Money

12. The cost of the Internal Audit Service from Liverpool City Council in 2023/24 was £40,500. The Authority had made adequate budget provision in 2023/24 to pay for these audit services.

Risk Management and Health & Safety Implications

13. There are no risk management and health & safety implications arising from the report.

Environmental Implications

14. There are no environmental implications arising from this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

15. The Authority is committed to ensuring strong internal control processes are in place to ensure that all information and services delivered are transparent and fair and all audit requirements are adhered to.

BACKGROUND PAPERS

CFO/019/23 2023/24 Internal Audit Plan, Audit Committee 24th May 2023.

Accounts & Audit (England) Regulations 2015

Code of Practice for Internal Audit in Local Government, CIPFA 2003

GLOSSARY OF TERMS

CIPFA Chartered Institute of **P**ublic **F**inance and **A**ccountancy

AUTHORITY Merseyside Fire & Rescue Authority

PSIAS Public **S**ervice Internal **A**udit **S**tandards



Liverpool
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2023/24



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1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service (MFRS) during the 2023/24 financial year the service for which is provided by Liverpool City Council (LCC), Internal Audit.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Audit Executive's (CAE) (the Head of Internal Audit) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Role of the Head of Internal Audit' also requires that an annual report is produced by the CAE on the work undertaken by Internal Audit during the year. It sets out the requirement for the CAE to report to senior officers and the Audit Committee to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Authority. The PSIAS requirements are that the report must incorporate:
- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
 - a summary of the audit work that supports the opinion; and
 - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).
- 1.3 The plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audit and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed.
- 1.4 It is not the intention of this report to give detailed information on audits that have been previously provided in the progress reports to the Audit Committee. This report provides a summary of the work done, the main issues that have arisen and the overall opinion on the Authority's control environment.
- 1.5 We would like to thank those officers throughout the Authority who provided their assistance and cooperation in the course of our work throughout the year.

2 Internal Audit Opinion 2023/24

- 2.1 The plan is designed to give reasonable assurance that controls are in place and working effectively. Based on the Internal Audit work undertaken in compliance with the PSIAS in 2023/24, it is our opinion that we can provide **substantial** assurance that the system of internal control in place at MFRS accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year and includes consideration of the wider sources of assurance provided to the Authority.
- 2.2 The priority work on fundamental systems audits completed have shown a substantial level of compliance. Based on the audit work carried out in 2023/24 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.3 Wider sources of assurance available to the Fire Authority include the results of HMICFRS inspections on the effectiveness and efficiency with which MFRS prevents and protects the public and responds to fires and other emergencies. The most recent HMICFRS inspection was published in October 2023. HMICFRS graded MFRS as outstanding in three areas and good in five others and the service has made progress since its last inspection. The principal findings were as follows:
- The service is outstanding at preventing fires and other risks. It carries out a high number of home fire safety checks and safe and well visits (SAWVs) and gives priority to those most at risk in the community.
 - The service is outstanding at responding to major and multi-agency incidents. It is well prepared to respond to these types of emergency incidents, and it works well with partners to make sure that there is an effective response.
 - The service is outstanding at making best use of its resources. It has comprehensive financial and resourcing plans aligned with its strategic priorities and sustainability strategies that are achieving value for money for the public.
 - The service should use its enforcement powers in a more proportionate way.
 - The service needs to do more to make sure its values and behaviours are demonstrated at all levels of the organisation and diversify its future and current leaders.
- 2.4 Assurance was also provided by Grant Thornton as the Authority's external auditor. In February 2024, Grant Thornton confirmed they were finalising their audit work and intend to issue an unqualified opinion on the Authority's 2022/23 financial statements, that they provided a true and fair view of the

financial position of the Authority as at 31 March 2023 and had been properly prepared in accordance with the CIPFA / LASAAC code or practice 2022/23.

- 2.5 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Director of Finance and Procurement and other officers with reasonable, but not absolute, assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.
- 2.6 This opinion is based solely on the matters that came to our attention during the course of our internal audit reviews and is not an opinion on all elements of the risk management, control and governance processes of the Service.
- 2.7 Internal Audit uses an overall opinion grading for audits and certain responsive work which is based on the ratings of the audit recommendations being made and is explained in more detail in section 8. The table below summarises the opinions given on internal audit work in 2023/24.

Fig 1 Summary of Opinions provided in 2023/24

Assurance Level	Control Environment	Compliance	
Substantial	8	6	
Good	0	2	
Acceptable / Limited / None	-	-	
Audits not yet reported	4	4	
Total Audits Completed	12	12	
Total Planned Audits			12

3 Summary of Audit Work Completed

- 3.1 The opinion of the CAE is informed significantly by the results of audits of the Authority’s fundamental systems. These are the major systems which underpin the system of internal control and financial reporting.
- 3.2 No significant issues were identified in the course of the fundamental systems audits. The audit coverage during the year has provided sufficient evidence that controls in place to govern the core financial systems are sound and that they are substantially adhered to. A summary of the outcomes of the audits for these systems for the year is set out below in Fig 2.

Fig 2 Completed fundamental systems audits in 2023/24

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Medium Term Financial Plan			

Audit Title	Control Environment	Compliance	Corporate Impact
Debtors			
Treasury management			
Budgetary Control			
Creditors	Substantial	Good	Draft
Payroll	WIP	WIP	WIP

Fundamental Systems

- 3.3 In our audit of each of these key financials we were able to provide positive opinions for all of these reviews. No significant control weaknesses were identified and a strong control environment continues to be maintained.
- 3.4 As standard practice, we made use of Computer Assisted Audit Techniques (CAATs) when performing a number of these audit reviews to confirm the accuracy and completeness of the information held on the systems. The controls within these systems contribute significantly to mitigating risks and reducing errors.
- 3.5 These reviews included examining whether the Authority’s medium-term financial position continues to reflect savings requirements and that appropriate proposals have been developed to achieve them.
- 3.6 A service level agreement exists between the Fire Authority and Liverpool City Council covering the provision of treasury management services. We therefore place assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. Sample testing is also performed of MFRS transactions and documentation as part of the audit.

Fig 3 Other Strategic/Client directed audits in 2023/24

Audit Title	Control Environment	Compliance	Corporate Impact
Vehicle fuel cards	Substantial	Good	Minor
Foreign, Commonwealth & Development Office Grant Funding	Substantial	Substantial	Minor
Bullying, harassment, discrimination processes	Draft	Draft	Draft
Enforcement powers	Draft	Draft	Draft
Flexi Duty Provided Vehicles	WIP	WIP	WIP

- 3.7 **Vehicle Fuel Cards** – The objective of this audit was to provide an opinion on the effectiveness of the arrangements in place to manage its fuel cards to safeguard against the risk of fraud and theft. The majority of controls

assessed were found to provide substantial assurance. There is an appropriate service instruction in place on the issue, monitoring and use of fuel cards which is accessible to all officers. However, the service instruction could benefit from review and a few minor additions to enhance clarity and the control environment.

- 3.8 Fuel card transactions are checked internally against the monthly invoices and any queries raised are resolved prior to their payment. Receipts are not always retained and provided; however, the transactions can be easily confirmed from the system. Allstar also have systems in place to highlight irregular/potentially fraudulent transactions, which are investigated where necessary.
- 3.9 **Foreign, Commonwealth & Development Office (FCDO) Grant Funding**
The aim of this review was to provide assurance that FCDO funds have been used for the intended purposes. All payments sample tested were made using the official payments system and all expenditure reclaimed was eligible and supported by appropriate documentation.
- 3.10 **Bullying, harassment, discrimination processes** – this review was performed following concerns raised at a national level over potential risks within the fire sector. The audit is to evaluate the effectiveness of MFRS policies, procedures, and practices related to addressing and preventing bullying, harassment, and discrimination. This audit is currently at draft report stage so it would be inappropriate to include an assurance opinion at this stage.
- 3.11 **Enforcement powers** – this review was also performed following concerns raised at a national level over potential risks within the fire sector. The audit is to provide assurance that there are appropriate arrangements for the effective use of enforcement powers as outlined within the Fire Safety Order 2005 and the Fire Safety Regulations 2022. This audit is currently at draft report stage so it would be inappropriate to include an assurance opinion at this stage.
- 3.12 **Flexi Duty Provided Vehicles** – this is a review to confirm controls are in place to ensure vehicles only used for business activity. Fieldwork is currently in progress.

Contingency/Responsive/Advice and Assistance

- 3.13 No contingency/responsive work was identified this financial year.

4 Recommendation Implementation

- 4.1 Where applicable, Internal Audit reports will include action plans detailing recommendations for improvement supported by agreed management actions. An officer is nominated with responsibility for each recommendation and an implementation date agreed.
- 4.2 Audit recommendations are graded as medium, high or essential/strategic with the latter being the most critical and indicating, for example, an absence or failure of a fundamental control where there is no compensating control. Internal Audit aims to follow up all essential / strategic recommendations within a month of their target implementation date, and all high and medium recommendations within three months.
- 4.3 During the period June 2023 to May 2024, Internal Audit made the audit recommendations identified in Figure 4 below.

Fig 4: The table identifies the Essential/ Strategic (E/S) High (H) and Medium (M) audit recommendations followed up between June 2023 and May 2024.

Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Asset Management	1	1	2	4
Payroll	-	1	-	1
Creditors	-	1	-	1
Ethics	-	3	-	3
Vehicles – Fuel cards	-	1	3	4
Total	1	7	5	13

- 4.4 The above recommendations are yet to pass their agreed implementation date but there are 10 others that require following up from the previous year. However, Internal Audit have recently launched ‘self-serve’ functionality to enable MFRS to update their progress in implementing the agreed actions directly into the audit system. As this is at an early stage we are yet to follow up previously agreed actions. However, this new streamlined approach will ensure the process is efficient, as well as robust. Progress of implementation against target date will be tracked and reported via the regular Internal Audit Reports presented to Audit Committee.

5 Quality Assurance and Improvement Programme

- 5.1 It is a requirement of PSIAS for the CAE to develop and maintain a QAIP that covers all aspects of internal audit activity.

- 5.2 The QAIP is made up of internal and external assessments and it is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.3 Based on the results of the internal assessments we can conclude that Internal Audit complied with the main requirements of the standards.
- 5.4 In accordance with the PSIAS the Internal Audit function is required to have an external quality assessment (EQA) undertaken at least once every 5 years. An external peer review against the PSIAS was undertaken by Bristol City Council between December 2021 and March 2022 as part of this five yearly cycle. Following the assessment, a number of recommendations were made; the Internal Audit Service is working towards addressing these.
- 5.5 The annual review of the Charter has taken place and is attached at Appendix One.
- 5.6 Based on the results of the QAIP for 2023/24 the Head of Internal Audit can confirm that internal audit activity generally conforms to the International Standards for the Professional Practice of Internal Auditing and with the requirements of PSIAS and the Code of Ethics.

Compliance with professional standards
 Internal Audit employ a risk-based approach in planning and conducting audit assignments. Work is performed in accordance with PSIAS

Conflicts of Interest
 There have been no instances during the period which have impacted on Internal Audit's independence

Internal Audit Quality Assurance
 To ensure the quality of the work performed, Internal Audit have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular networking with professional / technical bodies and peers

Performance Measures

- Percentage delivery of audit plan (target 100%), actual - 83% 2 reviews WIP ●
- Delivery of audits within agreed timescales (target 100%) actual – 92% ●
- Delivery of an annual audit plan in good time to advise the Annual Governance Statement – Annual indicator ●
- Auditees confirmation that audit reports address the key issues – ●

6 Organisational Independence

- 6.1 PSIAS require the CAE to confirm to the Audit Committee the organisational independence of the internal audit activity.
- 6.2 The arrangements in place to ensure organisational independence of the Internal Audit Service are outlined in the Internal Audit Charter Appendix One. The Charter establishes the framework within which Liverpool City Council's Internal Audit Service operates to best serve MFRA and to meet its professional obligations under applicable professional standards.
- 6.3 Underpinning the Internal Audit Charter, operational procedures are in place to govern day-to-day audit activity and this includes arrangements to ensure independence and objectivity.

7 Statement of Conformance with PSIAS

- 7.1 The external peer review confirmed there is general compliance with the PSIAS.

8 Definitions of audit assurance

- 8.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, a substantial level of assurance will be given on the controls tested. However, where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.
- 8.2 The grades, which are summarised in the table below, are based on the ratings of the audit recommendations being made. The corporate impact rating sets the audit findings in context based on the overall risk to the Service.

Control Environment Assurance – Opinion on the design and suitability of the current internal controls.	
Level	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Acceptable	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment
None	There are fundamental control weaknesses that present unacceptable level of risk to the control environment
Compliance Assurance – Opinion on the level of compliance with current internal controls.	
Level	Definition
Substantial	The control environment has substantially operated as intended.
Good	The control environment has largely operated as intended although some minor errors have been detected
Acceptable	The control environment has mainly operated as intended although errors have been detected
Limited	The control environment has not operated as intended. Significant errors have been detected
None	The control environment has fundamentally broken down and is open to significant error or abuse
Organisational impact – The potential impact on the organisation if the recommendations are not implemented.	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to moderate risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to a low level of risk. If the risk materialises it would have a minor impact on the organisation as a whole.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2024	REPORT NO:	CFO/32/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	2024/25 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A: 2024/25 INTERNAL AUDIT PLAN
	APPENDIX B: INTERNAL AUDIT SERVICE CHARTER

Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2024/25 and to seek comments from Members on the plan.

Recommendation

2. It is recommended that Members:
 - a) consider any comments or opinions they might have on the proposed audit plan; and
 - b) approve the 2024/25 Internal Audit Plan.

Introduction and Background

3. Internal Audit is defined as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”(Source: Public Sector Internal Audit Standards).
4. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems, (Accounts and Audit Regulations 2015). In order to fulfil this statutory requirement, the Authority has entered into a contract with Liverpool City Council’s Internal Audit Service. The Authority has utilised Liverpool City Council’s Internal Audit Service (LCC IAS) since 1986. LCC IAS has established

an Internal Audit Charter (IAC) and Quality Assurance & Improvement Programme (QAIP) to ensure compliance with the Public Sector Internal Audit Standards (PSIAS) and that LCC IAS delivers to the Authority an effective high quality service.

5. Each year Internal Audit submit a work plan following consultation with the Strategic Leadership Team, Director of Finance and Procurement, Head of Finance and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The two main strategic areas of work are:
 - a. a review of fundamental financial systems and processes; and
 - b. specific project reviews requested by the Service.
6. The proposed 2024/25 audit plan is attached as Appendix A to this report and Members are asked to consider the plan and provide any comments or opinions they might have on the proposed plan, and subject to any proposed amendments, approve the 2024/25 Internal Audit Plan.
7. Arrangements have been set in place for monitoring progress against the plan on an ongoing basis and for closely managing any ad hoc work requirements during the year.
8. Attached as Appendix B to this report, is the "Internal Audit Service Charter" that defines Internal Audit and the responsibilities of the Authority and Officers, the mission and core principles, the objectives and scope, the terms of reference and the working arrangements. The Charter ensures that the Authority receives an internal audit function in accordance with the mandatory requirements of the Public Service Internal Audit Standards (PSIAS) 2017.

Equality and Diversity Implications

9. There are no equality and diversity implications arising from this report.

Staff Implications

10. There are no staff implications arising from this report.

Legal Implications

11. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2015).

Financial Implications & Value for Money

12. The annual cost of the audit is £42,750 and is contained within the approved budget for audit services.

Risk Management and Health & Safety Implications

13. There are no risk management and health & safety implications arising from this report.

Environmental Implications

14. There are no environmental implications directly arising from this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

15. Internal Audit assists in the evaluation and enhancement of sound internal control arrangements that contribute towards ensuring the Authority's vision and approved policies and plans continue to drive decision making within the service.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

IAC	I nternal A udit C harter
LCC IAS	L iverpool C ity C ouncil's I nternal A udit S ervice
PSIAS	P ublic S ector I nternal A udit S tandards
QAIP	Q uality A ssurance & I mprovement P rogramme

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STRATEGIC AUDIT PLAN 2024/25

		Audit Days	
	Fundamental Financial Systems (general ledger, payroll, creditors/debtor systems etc)		40
	Strategic Reviews / Client directed / Ad hoc reviews		
1	Procurement Governance and Compliance – Review the procedures for procuring goods/services and test for compliance. To include a review of the plans in place to meet the requirements for the introduction of the new Procurement Act.	10	
2	Training and Development Academy – Review of the arrangements to recover costs for training courses and use of the training facilities by external organisations.	18	
3	Expenses – Review the procedures/process for claiming/processing expenses and test for compliance.	10	
	Strategic Reviews / Client directed / Ad hoc reviews		38
	Contingency - Investigations/Responsive / Advice & Assistance		3
	Follow up on implementation of previous audit recommendations.		6
	Audit Management		8
	Total Planned Days		<u>95</u>

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Merseyside Fire & Rescue Authority

Internal Audit Service Charter

Introduction

The purpose of this document is to formally define the purpose, authority and responsibility within which Liverpool City Council's Internal Audit Service operates to best serve the Fire Authority in accordance with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) 2017. This document also describes our working arrangements and the standards of consultation we will undertake as part of our service to you.

The Internal Audit Charter will be subject to periodic review and reported to Senior Management¹ and The Board² for approval.

Definition of Internal Audit

Internal Audit is defined within PSIAS as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Officers and the Authority in Relation to Internal Audit

For the purpose of this Charter the following definitions apply:

- The Board is the Audit Committee - those charged with independent assurance on the adequacy of the Authority's risk management framework, the internal control environment and the integrity of financial reporting arrangements. This includes oversight of the internal audit function and its activity.
- Senior Management is the Senior Leadership Team - those responsible for the leadership and the direction of the Fire Service. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing the Service including the risk of fraud and corruption.
- Section 151 Officer - is the Director of Finance & Procurement who is responsible for: ensuring lawfulness and financial prudence of decision making; administration of financial affairs; contributing to corporate management; providing advice and giving financial information.

¹ The Board is defined as the Audit Committee.

- Monitoring Officer - the Monitoring Officer is responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; proper officer access to information; advising whether executive decisions are within the budget and policy framework, complaints, including dealing with complaints relating to elected members. As such the Monitoring officer works closely with internal audit on governance matters.

Mission and Core Principles

The Mission of Internal Audit outlined within PSIAS is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Core Principles outlined within PSIAS, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively.

The Core Principles that underpin the delivery of the mission require internal audit functions to:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Be objective and free from undue influence (independent).
- Align with the strategies, objectives, and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
- Be insightful, proactive, and future focussed.
- Promote organisational improvement.

Objectives and Scope

Internal Audit will provide an independent and objective opinion to Merseyside Fire and Rescue Service on the adequacy and effectiveness of the control environment (comprising governance, risk management and internal control). It is management's duty to implement and maintain effective internal control systems within its area of responsibility. It is our role to advise management by reviewing and evaluating the effectiveness of those control systems.

The Chief Audit Executive (CAE)² has responsibility for the investigation of all alleged financial irregularities and Internal Audit will undertake fraud related work. Internal Audit officers will review referrals which they receive under this procedure, on a case by case basis and after initial enquiries may decide that an audit investigation is required or that an investigation should be undertaken by operational management. If urgent action is needed the matter will be referred to management directly.

² The Chief Audit Executive (CAE) is the Director of Audit

Internal Audit will also consider requests for consultancy work as long as there is no conflict.

Where an auditor has provided consultancy advice there is a procedure in place that is followed to limit any impairments to independence or objectivity.

Terms of Reference

The Accounts and Audit Regulations 2015 require that, '*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*' (5(1)).

At Merseyside Fire and Rescue Service our terms of reference are set out in Financial Regulations. In brief they enable us to carry out audits in any service area, with the right to access records, assets, personnel and premises to obtain information and explanations as required.

Financial Regulations also place responsibility on us for investigating fraud, corruption or other financial irregularity (unless otherwise directed by the Authority). Internal Audit must be notified of all instances of suspected or detected fraud, corruption or impropriety within the Authority.

Internal Audit will also respond to requests for consultancy work from the organisation in accordance with PSIAS. This is work that is advisory in nature with the aim of improving governance, risk management and control, but that is not necessarily assurance based. Consultancy work may be undertaken depending on resources, the high priority demands of opinion and fraud work and on whether the additional work will contribute to that opinion work.

Our objectives and methodologies are in line with those determined by PSIAS.

Independence, Accountability and Relationships

In order for our work to be effective, Internal Audit staff will remain independent of the activities they audit so that all conclusions and recommendations are, and are seen to be, based on impartial and professional judgements.

In accordance with PSIAS, to achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity the CAE must have direct and unrestricted access to Senior Management and the Board. The CAE has a functional reporting relationship with the Board and the Director of Finance & Procurement. In addition to this, the CAE has direct access, and freedom to report in her own name, without fear or favour, to all officers and members. This includes the Chief Fire Officer, Monitoring Officer, ELT, the Board and its Chair.

Where Internal Audit staff have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the Internal Audit management and supervisory process. Staff are required to complete a regular register of interest return and to declare any potential conflict of interest when they are assigned a particular audit review and the work will then be reassigned to another auditor.

If independence or objectivity is impaired this will be disclosed in the first instance to the CAE and to Senior Management and the Board as appropriate.

The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. Staff will be reminded of the need to comply with the Code on an annual basis. Individual staff are also required to adhere to the Codes of Ethics of their professional bodies where appropriate. As Internal Auditors working in the public sector we also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

It is our intention to build robust working relationships with both Senior Management and the Board in order that we can work in conjunction with them to determine how we may best achieve our objectives and to strengthen the control environment of the organisation.

In addition we aim to foster a close working relationship with the Authority's external auditors and other review bodies to avoid duplication and to increase the effectiveness of our work. Any assurances obtained from third parties will be considered in terms of how they contribute to our understanding of the effectiveness of the Authority's system of internal control.

Authority

As stated in Financial Regulations, Internal Audit has authority to:

- a. *'Access Authority premises at reasonable times.*
- b. *Access all assets, records, documents, correspondence and control systems.*
- c. *Receive any information and explanation considered necessary concerning any matter under consideration.*
- d. *Require any employee of the Authority to account for cash, stores or any other Authority asset under his or her control.*
- e. *Access records belonging to third parties, such as contractors, when required.*
- f. *Directly access the Chief Fire Officer, the Authority and its members'.*

This confirms the statutory requirement of the Accounts and Audit Regulations 2015 that, *'Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit – (a) make available such documents and records; and (b) supply such information and explanations; as are considered necessary by those conducting the internal audit (5(2)).*

May 2024

Any such records, documentation and information will solely be used for the conduct of audit activity and will be accessed and stored with due regard for data protection and security.

Determining a Programme of Internal Audit Work

Internal Audit's work will be determined in line with the objectives of the Authority and by considering the assurance and monitoring mechanisms for achieving the organisation's objectives.

A risk-based plan is developed annually and shared with key stakeholders. The risk-based plan comprises initially of core elements of audit work that are mandated each year. This includes audits of the key financial systems, reviewing corporate governance arrangements to inform the Annual Governance Statement, any grant certifications and reactive fraud work.

Once these core elements of the plan and follow up reviews are accounted for, the remaining audit resource is directed at undertaking audit work in the most high-risk areas, informed by our documented, ongoing risk assessment. These areas of work are determined and continually re-assessed throughout the year based on the ever-changing risk profile of the Authority. Periodic updates are provided to Senior Management and the Board of such work planned and undertaken. This is in line with the PSIAS that require the CAE to, *'review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programme, systems, and controls.'*

During the planning process the CAE will determine both the numbers of staff required to complete the planned work and the appropriate level of staff required to undertake each audit. Prior to the agreement of the audit plan the CAE will report to the Director of Finance & Procurement any shortfall in the resources available.

The CAE must be satisfied that there are sufficient resources to enable the delivery of the annual audit opinion on the adequacy and effectiveness of the Authority's control environment. This opinion is an important element of the Authority's review of the effectiveness of its control environment as required by the Accounts and Audit Regulations 2015. This is a fundamental element of the governance framework.

Working Arrangements and Protocol

In the case of any investigation referred to us, we will generally advise the relevant Senior Manager at the outset of the estimated completion date of the investigation. In the event of the investigation becoming more protracted than initially envisaged we will advise the relevant senior manager concerned as to the reasons for this, and the revised estimated completion date.

If an audit exercise or investigation extends over several weeks or longer, we will periodically provide a brief update of progress to the appropriate senior manager Audit Contact.

Internal Audit has a Privacy Notice in place in accordance with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. This outlines the arrangements in place by which we collect and process data, and the types of information we may collect. It also outlines how the information will be used, how it will be stored and for how long it will be retained.

Reporting Arrangements

We will formally report at the conclusion of each audit exercise or investigation. If a report contains particularly complex issues, we will share it in draft with the manager or appropriate senior staff involved.

We include with each report an action plan listing the recommendations made in the report. We ask you to return pro-formas to us by the date shown, signifying acceptance, or otherwise, of recommendations and the date of implementation. This is a key element in ensuring recommendations are agreed, and action is taken to implement them.

We provide periodic summaries of our main activities to Senior Management and the Board. Where a no assurance opinion is given for an audit this will be reported to both the Board and Authority as soon as possible. Where a limited opinion is given, the Board require an update from the service area within three months of the audit report being issued.

Quality and Professionalism

All audit work is carried out in line with best practice and professional standards in accordance with PSIAS. This includes the Definition of Internal Audit, the Code of Ethics and the Standards. These standards are a mandatory requirement for internal audit activity within the public sector.

Internal Audit operates a system of quality assurance that is governed by the Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS. The results of this Programme are reported to Senior Management and the Board in the annual report to support that our audit activity has complied with PSIAS.

All Internal Audit staff have regular performance reviews based on the CIPFA audit skills and competencies framework and the service is committed to a policy of staff development with an emphasis on professional training.

There are regular reviews of working practices including benchmarking against other Internal Audit services through the Core Cities and North-West Heads of Audit groups. In addition we actively seek feedback from internal and external clients through our customer survey questionnaires.